



Report of the Directors

The Directors of **United Breweries Limited** have pleasure in presenting their Report with Audited Accounts of your Company for the year ended March 31, 2005.

FINANCIAL RESULTS

Your Company's performance for the Financial Year ended March 31, 2005 is summarised below :

(Figures in Million)

| | 2004-2005 Rupees | 2003-2004 Rupees |
|--|---------------------|---------------------|
| Net Turnover | 5153.8 | 4536.8 |
| Profit before Interest & Depreciation | 566.0 | 433.3 |
| Interest | 208.2 | 324.5 |
| Depreciation | 105.7 | 66.9 |
| Profit Before Tax | 252.1 | 41.9 |
| Provision for Taxation : | | |
| Current | (19.8) | (3.2) |
| Deferred Tax (Liability)/Asset | (91.9) | (10.9) |
| Profit After Tax available for appropriations | 140.4 | 27.8 |
| Appropriations | | |
| Dividend on Preference Shares paid (including Taxes thereon) | 44.0 | — |
| Balance your Directors propose to carry to Balance Sheet | 96.4 | 27.8 |

DIVIDEND

Your Directors propose not to declare any Dividend on Equity Shares for the year and utilize the available Profits to capitalize on emerging business opportunities.

Your Company paid a Dividend on Redeemable Optionally Convertible Preference Shares (ROCPS) at the rate of 5% (pro-rata) in terms of the Letter of Offer.

CAPITAL

During the year under review, the Authorized Capital of the Company was increased from Rs.2500 Million to Rs.2800 Million comprising of Equity Share Capital of Rs.300 Million and Preference Share Capital of Rs.2500 Million. The Issued, Subscribed and Paid-up Share Capital as on March 31, 2005 stood at Rs.2315.1 Million comprising of Rs.178.2 Million Equity Share Capital and 2136.9 Million Redeemable Optionally Convertible Preference Shares (ROCPS). These ROCPS aggregating to 2136.9 Million allotted in November 2004 have been redeemed on April 30, 2005 upon subscription of 3,779,522 fresh Equity Shares and 24,690,000 Cumulative Redeemable Preference Shares (CRPS) by Scottish & Newcastle India Limited (SNIL). Post preferential allotment to SNIL, the paid up Equity Share Capital of your Company stands at Rs.216 Million and CRPS stands at Rs.2469 Million.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

India has historically recorded a very low consumption of Beer, averaging just over half a Litre per capita per annum, despite a secular population with varied religious affiliations. In comparison, Beer consumption is almost 20 Litres per capita per annum in China and exceeds 100 Litres in several European countries. Over-regulation and excessive taxation causing unpalatably high-end consumer prices of Beer in relation to the alcoholic content it delivers is seen as the primary reason for the low consumption. This has resulted in a small but rapidly growing market currently totaling about 7 Million Hecto Litres.

Regulatory environment does not distinguish between Beer and spirits either with reference to taxation or distribution. This is the key differentiator from other parts of the world where Beers and wines are freely distributed and are subject to perceptibly lower regulatory intervention in comparison to spirits.

Report of the Directors (Contd.)

The Constitution of India gives the States the sole right of regulating the potable alcohol industry, consequent to which each State has instituted distinct and differential regulatory regimes. Restrictions on interstate commerce in alcoholic beverages, including Beer, have necessitated fragmenting of capacity by creation of manufacturing facilities in each market. There are currently about 57 Breweries in the country with a total capacity of approximately 13 Million Hecto Litres. Several independent Breweries suffer from extremely poor capacity utilization in the face of intense competition and consolidation of the industry in recent times.

Your Company has been vigorously pursuing with the State Governments urging the need for a more rational approach towards the regulations on Beer, in view of the fact that high unit costs and restricted availability cause several of the younger consumers to cheap spirits in preference to Beer, with a resultant social outcome. The high levels of taxation and resultant high-end consumer prices have resulted in demand for the product being skewed increasingly in favour of high alcohol Beers having alcoholic content in excess of 6%. This is seen as a consumer's response to deriving higher value for the money is measured by the alcoholic content, which is delivered per rupee. The sales of lager Beer has been flat or mildly de-growing, whereas over the last 5 years the share of strong Beer in the overall industry is 65%. While Kingfisher has always represented a lifestyle which is appropriately linked to mild Beer, your Company launched a Strong variant about 5 years back and this segment has seen strong growth. The current year witnessed sales of over 13 Million Cases representing a growth of nearly 27% in the strong Beer segment.

By the turn of the current decade it is estimated that nearly 100 Million consumers will reach the legal drinking age in the country. The growth of job and income generating activities for the young educated population particularly in the service industry gives cause to expect acceleration in demand for Beer in the coming years. Your Company is also innovating by the introduction of new products and variants to meet emerging tastes – an example being the recently successful launch of Jaguar – a Beer with a wine like character. Jaguar has captured a 10% market share in the areas that it has been introduced.

OPERATIONS

Sales :

During the year under report, your Company sold 36.4 Million Cases in volume terms as against 33.1 Million Cases in previous year representing a growth of 10%. During the same period the industry is estimated to have grown by 8%. Net sales for the year under review stood at Rs.5153.8 Million as against Rs.4536.8 Million in the previous year representing a growth of 13.6% over the comparable figure in the previous year.

"Kingfisher" family continued to lead the industry with a sales volume of over 31.3 Million Cases with Kingfisher Premium Lager representing 18.2 Million Cases and Kingfisher Strong representing 13.1 Million Cases. Kingfisher Strong achieved a growth of around 31%. During the same period, the Strong Beer segment of the Industry is expected to have growth by 11% only. Almost one of every 3 Beers consumed in the country continues to be a Kingfisher. Innovative launches of Kingfisher Pint in Pondicherry and Kingfisher Strong 330 ml in M.P. has given a boost in volumes and consumer base. Further UB Export Lager supported by its brand Ambassador Upendra has delivered for superior value equation to the consumer.

UB Export in Karnataka, Kingfisher Premium Lager in Goa and Kalyani Black Label in Kolkata have not only increased volumes but have also succeeded in expanding the market share.

The spirit of innovation "JAGUAR", which after years of experimentation has resulted in creation of a totally new product with "Winey" character. In a short span of time since its launch "JAGUAR" has captured the minds and palates of every one who has tasted it. Initially, launched in Karnataka and Kolkata, the product has created a storm amongst consumers and has captured a market share of almost 10% in the strong Beer segment in the markets where launched.

Your Company has maintained its market share when compared to the previous year. Significantly in a very short span of time, Kingfisher Strong has established a sizeable 21% market share of the fast growing strong Beer market. Your Company continued to invest in its brands ensuring top of mind recall with customers.

Kingfisher Packaged Drinking Water now has a national presence with 21 contract units having Bureau of Indian Standards certification manufacturing the same. Your Company's water brand has touched a volume of 4.5 Million Cases during the year under review within 5 years of its launch.

Your management's undiluted focus on the consumer with an emphasis on delivering value for the products has enhanced the perception of brands in the consumers mind.



Report of the Directors (Contd.)

Manufacturing Expenses :

The manufacturing expenses stood at Rs.2635.4 Million constituting 51.14% of the net sales (54% in the previous year). Your Company had undertaken market focused initiatives and internal measures to contain costs and improve margins. Concerted efforts resulting in stabilization of bottle prices also helped in containing costs during the year.

Personnel and Other Operating Expenses :

Personnel expenses stood at 6.56% of Net Sales as against 6.59% in the year 2003-2004 and other operating expenses were at 12.96% of net sales.

Advertisement and Brand Promotion :

Your Company spent 21.38% of net sales on Advertisement and Brand promotion during the year compared to 19.44% of the previous year. This increase is primarily on account of introduction of new brands and increased volumes during the year. Innovative methods have, however, ensured that the recall of your Company's brands with target customers is retained at its high levels.

The flagship brand Kingfisher Premium Lager Beer has, over the years, been associated with several lifestyle platforms. The efforts were further strengthened through our association with India Fashion Week and Kingfisher Fashion Awards during the year under review. Kingfisher Fashion Awards remain the premier fashion award in the country, and Kingfisher's association with fashion has helped the nascent industry blossom. Kingfisher has also initiated its foray into sports merchandise with the launch of Reebok Kingfisher East Bengal Jersey.

Launched in all markets, the new look Kingfisher with the "flying bird" symbolizes the soaring presence of your Company's product meeting the changing aspirations and needs of an emerging young consumer class.

Kingfisher was truly the King of Good times at the Mumbai Marathon which is becoming a major sporting event in India. Kingfisher was the official water partner at the 42 Kilo Metre Marathon which drew 26000 participants from various parts of the world.

Kingfisher Swim Suit Calendar, a showcase for the Indian fashion industry today, is a rare combination of photography, fashion, sun, surf and sand – symbolizing life, fun and beauty. The third edition of Calendar bagged the prestigious FAB Award at the 7th International Food & Beverages Creative Excellence Awards 2005 held in London.

Your Company won a number of awards at the recently held Big Bang Awards at Bangalore and AAA of I Awards at Mumbai. The innovative initiatives have not only been successful but have also been acknowledged and recognized by the Industry.

In a survey conducted by IMRS, it was found that the UB Export Campaign had the highest spontaneous recall rate in Bangalore amongst all new Advertising campaigns.

London Pilsner 230 ml has been re-launched in Mumbai with a new positioning platform with an attractive price and tagline. The re-launch campaign consists of a high impact visibility drive.

The latest addition to the Kingfisher Strong family has been the launch of 330 ml Cans in Mumbai and other places in Maharashtra. This roll out is turning out to be a big hit amongst consumers.

Your Company continues its association with Baichung Bhutia and Karun Chandok for Kingfisher, Vinod Kambli for London Pilsner, Prosenjit for Kalyani Black Label, Upendra for UB Export Lager.

Profit Before Interest, Lease Rentals, Depreciation and Taxation (PBIDT) :

The PBIDT for the year under review was Rs.566 Million as against the Previous Year figure of Rs.433 Million. Such an increase in PBIDT was achieved mainly on account of increased volumes and stabilization of input cost of Bottles. Licensing arrangements in Australia and New Zealand has started showing positive results in terms of Royalty income and has improved brand positioning in these countries.

Interest, Lease Rentals and Depreciation :

Interest paid during the year amounted to Rs.208.2 Million as against 324.5 Million during the previous year and Depreciation accounted for Rs.105.7 Million as against Rs.66.9 Million in the previous year. Infusion of Rs.2136.9 Million in the form of Redeemable Optionally Convertible Preference Shares (issued on rights basis) has brought about a significant reduction in interest cost during the year under review thereby improving the Profitability of your Company. Introduction of Rs.2469 Million in the form of CRPS at 3% coupon rate will further reduce interest cost during the current year thereby increasing Profitability.

Report of the Directors (Contd.)

Profit Before and After Taxation :

The Profit before taxation stands at Rs.252.1 Million, (against a Profit of Rs.41.9 Million reported last year). The Profit after taxation during the year is Rs.140.4 Million as against a Profit of Rs.27.8 Million in the previous year. This was achieved essentially on account of reduced finance charges coupled with the increase in PBDT achieved through increase in volume and control over input cost.

ALLIANCE WITH SCOTTISH AND NEWCASTLE

Pursuant to the strategic understanding with Scottish & Newcastle (S&N) your Company allotted Equity Shares aggregating to Rs.37.79 Million constituting 17.5% of the post-issue Paid-up Equity Share Capital of the Company and CRPS aggregating to Rs.2469 Million. This triggered an Open Offer for acquisition of 20% Equity Shares from the general public. The Offer closed in February 2005. Post completion of statutory formalities and securing all requisite statutory approvals by the Acquirers, the Company allotted Equity Shares and Preference Shares to S&N.

Your Company continues to hold 40% stake in McDowell Alcobev Ltd., (now called Millennium Alcobev Pvt. Ltd.) the Joint Venture Company with S&N. Millennium Alcobev Pvt. Ltd. already owns a network of Breweries and strong regional brands which enjoys a market share of 10% further enhancing your Company's leadership position.

The Alliance with S&N has created substantial Shareholder value with public Shareholders getting a price of Rs.575/- per Equity Share tendered in the open offer. The price of the shares, post offer, has remained significantly over previous levels affording sustained value to Shareholders.

S&N inducted Rs.1837.75 Million by way of Redeemable Optionally Convertible Preference Shares (ROCPS) through Rights Issue in the Company. The ROCPS were redeemed on April 30, 2005 upon infusion of fresh Cumulative Redeemable Preference Shares (CRPS) aggregating to Rs.2469 Million by S&N.

Considering the above events, your Directors are pleased to present the unaudited financial position of the Company as at April 30, 2005 (attached to this report) which will give a better understanding of the Company's financial position post the alliance.

PROSPECTS

Almost 70% of the population in India, (i.e., over 700 Million people) being below the age of 34, constitutes a powerful argument for increase in the demand for Beer. Low per capita consumption of Beer in the country and changes to cultural attitudes towards the consumption of alcoholic products in recent times provide further compelling case for the industry. Given the demographics of the country which is skewed in favour of the youth whose preference is for consumption of low alcohol beverage, such as Beer, in preference to spirits, it is anticipated that the Beer industry will witness substantial growths in the years to come. However, these growths can be realized only in a favourable regulatory environment. Your Company has been at the forefront in educating Governments on the need to differentiate the taxation and regulation of Beer from taxation and regulation of spirits. Progress has been slow but steady and there are imminent signs of a further, though gradual, deregulation in the industry.

Harmonization of tax structure across states and change in the present system of taxation wherein tax incidence based on alcohol content rather than advalorem basis will go a long way in improving the market for Beer in India.

The strategic alliance initiative of your Company with S&N will further strengthen the strong leadership position that your Company holds in a fast growing market with enormous long term potential. "Kingfisher" will also receive a significant boost in overseas markets through S&N's worldwide distribution network.

Innovative promotions and communication continue in your Company's brand building effort. Being brand leader, the Company has led from the front in achieving its targets. Your Company also continued with sponsorship of appropriate events like Kingfisher Derby, Corporate Football, Hockey, Cricket and Fashion Shows.

Your Management have synergized the operations of your Company and Millennium Alcobev Private Limited, the Joint Venture under one umbrella which in turn would rationalize market coverage, use broader portfolio to devise strategies and attack competition in all markets. It will also help your Company to optimally utilize all the manufacturing facilities under the fold and give maximum potential in the procurement cycle.

Your Company has entered into definitive agreement for acquisition of the demerged brewing entity of Karnataka Breweries & Distilleries Limited which has augmented further control over capacities in Karnataka, one of the most Profitable markets in India.

All the foregoing will help your Company to embark on a path of sustained growth in terms of both sales and Profits.



Report of the Directors (Contd.)

INTERNAL CONTROL SYSTEM

Your Company has in place an established system of internal controls to ensure assets are safeguarded and transactions are appropriately authorized, recorded and correctly reported. The Internal Audit Department evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting. Your Company's Internal Control Systems are adequate and are routinely tested and certified by statutory as well as internal auditors. The internal control system is a process that provides reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. Various risks are identified and assessed routinely across all operations and suitable controls are designed to address and mitigate significant risks. The Internal Audit Department reports to the Audit Committee and recommends control measures from time to time. The systems are continuously upgraded to be in line with best international practices.

The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with specific standards with regard to availability and suitability of policies and procedures and extent of adherence. It further evaluates adequacy of segregation of duties, reliability of Management Information Systems including controls in the area of authorization procedures including steps for safeguarding assets. Planned periodic reviews are carried out resulting in identification of control deficiencies, opportunities for bridging gaps with best practices and formalization of time bound action plans to minimize risk. The implementation process is further reviewed and reported by the Internal Audit department after an appropriate period.

Your Company believes that overall internal control system is never static but dynamic, reflecting the current requirements at all times and hence it is ensured that appropriate procedures and controls are operating and monitoring practices are in place.

OPPORTUNITIES & THREATS

While the Indian Beer market has been growing at 8% annually, your Company has recorded a much higher growth rate during the period under review. With further investment your Company has been able to upgrade and expand existing capacities and further strengthen its brands. Currently, the total Indian Beer market is still small with annual sales of around 7 Million Hecto Litres, but has been growing rapidly over the last one decade. This trend is continuing and your management is taking all initiatives to tap the growing demand. Climatic conditions in India are more suited to drinking Beer, which could be seen as a healthier alternative, than other alcoholic beverages.

Strong Beer (alcohol by volume of 6% - 8%) accounts for 65% of the total Beer market and the key Beer consuming States are Andhra Pradesh, Maharashtra, Tamil Nadu, Karnataka, Rajasthan and Uttar Pradesh. The per capita consumption of 0.6 Litres is low, emphasizing the significant growth potential in a country with a population in excess of one billion people. Key drivers of high growth include rising gross domestic product, favourable demographics, changing lifestyles, and the opportunity to grow per capita consumption together with potential deregulation of the Indian Beer industry.

Deregulation is expected to happen imminently. The brewing industry has been united in airing its views in this regard. As deregulation happens, the taxation structure on Beer will be de-linked from liquor making Beer available to the consumer at much lower rates. Such a shift in Government policy will broaden the demographic base significantly the Indian Beer market will expand multiple times in the next few years.

Increasing entry of foreign competition in the Indian Beer Industry could be a potential future threat though your Company is taking proactive steps to ensure its continued dominance in the industry.

RISKS & CONCERNS

Regulation and excessive taxation are key concerns. Given the similar nature of the duty structure, Beer is dearer than spirits per unit of alcohol. Government levies and taxation have a direct bearing on the Profitability of the industry. Further escalation of input cost in vital areas like of packaging and other basic raw materials has a significant impact in the pricing of the product. Availability of Barley is a concern due to reduced margins to farmers and consequent reduction in the cultivable land available for Barley.

Your Company has explored a number of avenues to contain the risk of continued increase in the face of static selling prices.

The drivers of growth are in place. However, high taxation and extension of State monopoly in distribution and restriction in communication will have a bearing on the future results.

Report of the Directors (Contd.)

HUMAN RESOURCES

The objective of your Company's Management is to build competencies, commitment and culture in the organization. This objective enables the Human Resource to enhance performance and retain its leadership position. The Balanced Scorecard performance management system has been recently introduced across the organization. This methodology translates strategy in operational terms and aligns the objectives of each and every individual with the Company objectives.

The management is in the process of carrying out a competency mapping exercise to ensure that development initiatives are undertaken to bridge the gaps identified. Employees are motivated to bring out their best. Performance is recognized with an appropriate compensation package. A Profit incentive plan was announced to ensure that a part of the incremental Profit is shared with the employees.

Your Company's human resources have played a vital role in achieving the improved results. Your Directors express their appreciation for the dedication and hard work put in by the employees throughout the year.

Your Company's Human Resources Department ensured smooth and harmonious Industrial Relations at all the units. 1844 employees form part of the human capital of your Company.

SUBSIDIARY COMPANIES

During the year, your Company has acquired the balance 35% stake in Associated Breweries & Distilleries Limited (ABDL) by which ABDL would become a wholly owned Subsidiary of your Company.

Your Company has received approval from the Central Government exempting your Company from attaching the Accounts etc. of its subsidiaries viz. Associated Breweries & Distilleries Ltd., London Pilsner Breweries Pvt. Ltd., London Draft Pubs Pvt. Ltd. and Mangalore Breweries & Distilleries Ltd., with the Balance Sheet of the parent Company. In terms of the approval so granted by the Central Government, the Accounts, etc., of the above subsidiaries are not required to be attached with the Balance Sheet of parent Company. However, these Accounts will be provided on request to any member requiring to have a copy, on receipt of such request by the Company Secretary at the Registered Office of the Company.

Statement pursuant to Section 212(1) (e) forms part of the Annual Report.

CONSOLIDATION

As required under the Listing Agreement, Consolidated Accounts conforming to applicable Accounting Standards are attached to the Annual Report.

DEPOSITORY SYSTEM

Your Company has entered into agreements with National Securities Depository Limited and Central Depository Services (India) Limited in accordance with the provisions of the Depositories Act 1996 and as per the directives issued by SEBI.

DIRECTORS

Consequent upon acquisition of 37.5% equity Stake by Scottish & Newcastle India Limited, a Subsidiary of Scottish & Newcastle Plc. (S&N) the Board of Directors of your Company has been reconstituted in accordance with an understanding reached between S&N and your Company. Consequently Mr. S R Gupte, Mr. Atul Munim, Mr. V K Rekhi and Dr. Neville Bain opted out of the Board with effect from April 29, 2005. Mr. John Hunt, Mr. John Dunsmore, Mrs. Lesley Jackson, Mr. CY Pal and Mr. Sunil Alagh were appointed as Additional Directors with effect from April 29, 2005.

The Board places on record the competence, commitment, dedication and guidance provided by the outgoing Directors during their tenure on the Board of your Company.

Mr. C L Jain and Mr. A K Ravi Nedungadi retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. Price Waterhouse, Statutory Auditors, hold office till the conclusion of the ensuing Annual General Meeting, and are eligible for re-appointment.

AUDITOR'S REPORT

With respect to the observations made by the Auditors in the Audit Report, your Directors state as under :



Report of the Directors (Contd.)

Millennium Alcobev Pvt. Limited, being a Joint Venture (JV) between UBL and S&N has already made significant inroads into the market by achieving a 10% market share within a period of three years. The said subsidiaries and the JV have their manufacturing locations in critical markets and meet almost 33% of the Company's capacity requirement. Considering these, the investments are strategic and long-term in nature and substantial benefits are expected to accrue to the Company in terms of market share and capacity utilization. Therefore, the management is of view that there is no permanent diminution in the value of investments and no provision therefore is considered necessary at this stage.

The Company and its subsidiaries are engaged in manufacture, purchase and sale of Beer including licensing of brands which constitutes a single business segment.

LISTING REQUIREMENTS

Your Company's Equity Shares are listed at Bangalore, Mumbai, Ahmedabad, New Delhi, Calcutta, Hyderabad, Cochin, Ludhiana and Chennai Stock Exchanges. The Listing Fees have been paid to all the Stock Exchanges for the year 2005- 2006 and the Company has complied with all requirements of the Listing Agreements.

CASH FLOW STATEMENT

A Cash Flow Statement for the year ended March 31, 2005 is appended.

CORPORATE GOVERNANCE

A Report on Corporate Governance along with the Certificate from the Auditors forms part of this report.

FIXED DEPOSITS

The Company has not invited any Fixed Deposits.

PARTICULARS OF EMPLOYEES, CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION ETC.

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Company's (Particulars of Employees) Rules 1975, forms part of this Directors' Report and is annexed. Particulars required under Section 217(1)(e) are also annexed.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of The Companies Act, 1956, your Board of Directors reports that :

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any.
- accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit of the Company for that period.
- proper and sufficient care have been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- The Annual Accounts have been prepared on a going concern basis.

ACKNOWLEDGEMENT

Your Directors wish to place on record their appreciation for the continued support received from Shareholders, Banks and Financial Institutions. Your Directors are also grateful to the Company's business partners and customers for their continued support and patronage. Finally, your Directors wish to acknowledge the support and contribution on the part of all employees who constitute our most valuable asset.

By Authority of the Board,

Mumbai
July 29, 2005

VIJAY MALLYA
Chairman

Annexure to the Directors' Report

A. CONSERVATION OF ENERGY

Energy conservation measures taken by the Company.

(a) **Electrical Energy** : Steps taken to improve power factor at Bombay Brewery resulting in receipt of power factor improvement incentives from Maharashtra Electrical Board – implemented.

(b) **Fuel Oil Consumption** : Improvement in Steam Systems implemented at Kalyani and Hyderabad.

Alternate fuel boiler installed at Ludhiana based on local waste material i.e., Rice Husk. This resulted in savings of energy cost of the unit to the tune of Rs.90 lakhs per annum.

(c) **Water Conservation** : Rain water harvesting completed at Palghat Unit resulting in recharge of local bore wells. Similar exercise has been initiated at Goa also.

Pasteurized water recycling started at Hyderabad and Canning Rinser water recycling started at Bombay Brewery.

Water conservation for cleaning purposes is started at Goa and Ludhiana. This has brought down the water consumption by more than ten percent.

B. TECHNOLOGY ABSORPTION

Latest technology for Beer Filling Machine has been incorporated in the fillers installed at Hyderabad and Ludhiana. This replaces the mechanical filling valves by electroneumatic filling valves, resulting in reduced wastages and higher productivities on the line.

C. RESEARCH AND DEVELOPMENT

Company continues its Research & Development programme in the area of development of two row malting variety of barley. Company also introduced a new "Winey Beer". The product is the output of in-house R&D activity. This kind of product is being launched for the first time anywhere in the World.

D. FOREIGN EXCHANGE INFLOW AND OUTFLOW

Foreign Exchange earned Rs. 2.635 Million
Foreign Exchange used Rs. 274.17 Million

STATEMENT UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 FOR THE YEAR ENDED MARCH 31, 2005

| Sl. No. | Name | Age | Date of Joining * | Total Remuneration Rs. | Designation | Educational Qualifications | Experience in Years | Previous Employment |
|---------|-------------------|-----|-------------------|------------------------|--------------------------|---------------------------------|---------------------|---|
| 1. | Kalyan Ganguly | 54 | 9.08.2002 | 12661254 | Managing Director | B.A. (Hons.), PGDBM (XLRI) | 32 | EVP - Marketing & Sales; McDowell & Co. Ltd. |
| 2. | N. K. Mittal | 56 | 1.08.2001 | 4237481 | EVP - Manufacturing | B.Tech., Mech. Engg. | 33 | DVP - Mfg. North; McDowell & Co. Ltd. |
| 3. | Shekar Ramamurthy | 44 | 1.08.2001 | 4610814 | EVP - Sales & Marketing | B.Tech., IIT, PGDBM (IIM) | 18 | General Manager-Marketing; Herbertsons Ltd. |
| 4. | P. A. Murali | 47 | 1.08.2001 | 4243466 | EVP - Finance & Accounts | B.Com., A.C.A. | 24 | Sr. Vice President & CFO- Mendocino Brewing Co., Inc. - USA |
| 5. | Joe Noronha | 50 | 1.08.2001 | 2826264 | SVP - HRD | B.Com. PGPMIR (XLRI) | 25 | Personnel Manager, The Oberoi Bogmalo Beach, Goa |
| 6. | D.N. Sapra | 58 | 1.08.2001 | 2462318 | SVP - Operations | M.Sc. (Chem), M.Sc. (Brwg. Sc.) | 34 | Asst. Production Manager, Jagatjit Industries Limited |

* NOTES :

Mr. Kalyan Ganguly was appointed as a Managing Director of the Company on August 9, 2002. Prior to the said date, Mr. Ganguly was holding the position of President – Breweries Division.

All the above employees were transferred to United Breweries Limited upon Demerger of Brewing Business of erstwhile United Breweries Limited into the Company. Remuneration shown above include Salary, Allowance, Medical, Leave Travel Expenses and monetary value of perquisites as per Income Tax Rules.

None of the employees mentioned above is a relative of any Director of the Company.

None of the above mentioned employees is holding more than 2% of the Paid-up Equity Capital of the Company.



Provisional and Unaudited Balance Sheet as at April 30, 2005

Rs. Thousands

| SOURCES OF FUNDS | Schedule | As at April 30, 2005 | | As at March 31, 2005 | |
|--|----------|----------------------|-----------|----------------------|-----------|
| | | Rs. | Rs. | Rs. | Rs. |
| SHAREHOLDERS' FUNDS | | | | | |
| Share Capital | 1 | 2,685,001 | | 2,315,114 | |
| Reserves and Surplus | 2 | 2,298,134 | 4,983,135 | 206,105 | 2,521,219 |
| LOAN FUNDS | 3 | | | | |
| Secured Loans | | 1,647,744 | | 1,809,936 | |
| Unsecured Loans | | 74,196 | 1,721,940 | 949,791 | 2,759,727 |
| Deferred Credit | | | 43,461 | | 43,461 |
| Deferred Tax Liability (Net) | | | 81,026 | | 81,026 |
| | | | 6,829,562 | | 5,405,433 |
| APPLICATION OF FUNDS | | | | | |
| FIXED ASSETS | 4 | | | | |
| Gross Block | | 1,396,529 | | 1,357,304 | |
| Less : Depreciation | | 269,081 | | 259,370 | |
| Net Block | | 1,127,448 | | 1,097,934 | |
| Capital Work in Progress | | — | 1,127,448 | 40,117 | 1,138,051 |
| INVESTMENTS | 5 | | 1,465,139 | | 1,465,149 |
| CURRENT ASSETS, LOANS AND ADVANCES | | | | | |
| Inventories | 6 | 571,067 | | 484,916 | |
| Sundry Debtors | 7 | 931,427 | | 996,638 | |
| Cash and Bank Balances | 8 | 1,296,730 | | 172,621 | |
| Other Current Assets | 9 | 439 | | 439 | |
| Loans and Advances | 10 | 2,738,929 | | 2,608,750 | |
| | | 5,538,592 | | 4,263,364 | |
| Less : CURRENT LIABILITIES & PROVISIONS | | | | | |
| Liabilities | 11 | 1,260,021 | | 1,410,604 | |
| Provisions | 12 | 42,088 | | 51,057 | |
| | | 1,302,109 | | 1,461,661 | |
| Net Current Assets | | | 4,236,483 | | 2,801,703 |
| Deferred Tax Asset (Net) | | | — | | |
| MISCELLANEOUS EXPENDITURE | | | | | |
| (To the extent not written off) | | | 492 | | 530 |
| Profit & Loss Account | | | — | | — |
| | | | 6,829,562 | | 5,405,433 |

Report on Corporate Governance

COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Manifested in the Company's vision United Breweries Limited has always strived for excellence in Corporate Governance. Beyond mere compliance we are committed towards taking all strategic initiatives to enhance Shareholders' wealth in the long term. In pursuit towards corporate goals, the Company accords high importance to transparency, accountability and integrity in its dealings. Our philosophy on Corporate Governance is driven towards welfare of all the Stakeholders and the Board of Directors remains committed towards this end.

The Board of Directors supports the broad principles of Corporate Governance and lays strong emphasis on its role to align and direct the actions of the Company in achieving its objectives.

BOARD OF DIRECTORS

Your Company is managed and controlled through a professional Board of Directors. The composition of the Board of Directors meets with the requirement of Corporate Governance Code prescribed in the Listing Agreement. The Board is comprised of requisite independent Directors in terms of the Corporate Governance norms. Your Company's Board consists of eminent persons with considerable professional expertise and experience.

Pursuant to strategic alliance with Scottish & Newcastle Plc., (**S&N**), Scottish & Newcastle India Limited, a subsidiary of S&N has acquired equity stake in the Company on April 7, 2005, and hence the Board of Directors of the Company has been reconstituted now to comprise of 9 Directors.

Matters of policy and other relevant and significant information are regularly made available to the Board. In order to ensure better Corporate Governance and transparency, the Company has constituted Audit Committee, Investors' Grievance Committee, Remuneration / Compensation Committee and Share Transfer Committee to look into the aspects of each Committee. The Company has an Internal Audit Department commensurate with the size of the organization. There are comprehensive management reporting systems involving preparation of operating results and their review by senior management and by the Board.

During the financial year ended on March 31, 2005, 9 Board Meetings were held on April 27, 2004, June 25, 2004, July 27, 2004, October 28, 2004, November 19, 2004, December 19, 2004, January 20, 2005, January 31, 2005 and March 31, 2005.

ATTENDANCE AT BOARD MEETINGS AND ANNUAL GENERAL MEETING (AGM)

| Names of the Directors | Category | Number of Board Meetings held | Number of Board Meetings attended | Attendance at the last AGM held on 28.09.2004 |
|------------------------|--------------------|-------------------------------|-----------------------------------|---|
| Dr. Vijay Mallya | Chairman (NE) | 9 | 7 | YES |
| Mr. S R Gupte * | Director (NE) | 9 | 7 | YES |
| Mr. V K Rekhi * | Director (NE) | 9 | 8 | YES |
| Mr. A K Ravi Nedungadi | Director (NE) | 9 | 9 | YES |
| Mr. Atul Munim * | Director (NE) | 9 | 6 | NO |
| Mr. C L Jain | Director (NE, Ind) | 9 | 9 | YES |
| Dr. Neville Bain * | Director (NE) | 9 | 2 | NO |
| Mr. Kalyan Ganguly | Managing Director | 9 | 9 | YES |
| Mr. John Hunt ** (@) | Director (NE) | 9 | 3 | YES |
| Mr. Sunil Alagh ** | Director (NE, Ind) | Nil | Nil | NO |
| Mr. John Dunsmore ** | Director (NE) | Nil | Nil | NO |
| Mr. C Y Pal ** | Director (NE, Ind) | Nil | Nil | NO |
| Mrs. Lesley Jackson ** | Director (CFO) | Nil | Nil | NO |

Notes : NE – Non-Executive, Ind - Independent

* These Directors have resigned from the Board with effect from April 29, 2005 in view of reconstitution of the Board of Directors of the Company.

** These Directors have been appointed as additional Directors on the Board of the Company with effect from April 29, 2005 in view of reconstitution of the Board of Directors of the Company.

(@) Mr. John Hunt was appointed as an alternate Director to Dr. Neville Bain on October 28, 2004. Mr. John's term of office expired upon resignation of Dr. Bain effective April 29, 2005. In the same meeting Mr. John Hunt was appointed as an additional Director of the Company.